

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

BASIC FINANCIAL STATEMENTS
WITH ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE SINGLE AUDIT ACT

YEAR ENDED JUNE 30, 2008

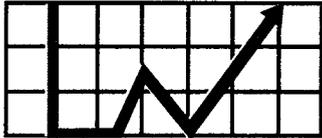
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YEAR ENDED JUNE 30, 2008

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
the Municipal Legislature
Municipality of Guayama
Guayama, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Guayama, Puerto Rico (Municipality)**, as of and for the year ended June 30, 2008, which collectively comprise the **Municipality's** basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **Municipality's** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Guayama, Puerto Rico**, as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2008, on our consideration of the **Municipality's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 and the Budgetary Comparison Schedule-General Fund on page 40 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Guayama's** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the **Municipality of Guayama**. The information in that schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 29, 2008

Stamp No. 2312213 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2008

This discussion and analysis of the **Municipality of Guayama** (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2008. This Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended on June 30, 2007. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

1. a broader basis in focusing important issues;
2. acknowledgement of an overview of the Municipality's financial activities;
3. provide for an evaluation of its financial condition as of the end of the indicated fiscal year, compared with prior year results;
4. identification of uses of funds in the financing of the Municipality's variety of activities and;
5. assess management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

The following comments about the financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2008 deserve special mention:

1. Total assets of the Municipality amounted to \$115,910,654 which represents an increase of 1% compared to prior fiscal year.
2. At the end of fiscal year 2008, total liabilities amounted to \$42,032,313. Out of said amount, \$35,629,045 corresponded to long-term liabilities of which \$23,010,105 represented the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which was paid from self generated revenues.
3. Total net assets of the Municipality amounted to \$73,878,341 which represents an increase of 5% compared to prior fiscal year.
4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$39,862,453, derived from the following sources: \$431,515 charges for services; \$14,295,873 from operating grants and contributions; \$3,455,195 from capital grants and contributions obtained from other sources, and \$21,679,870 from general revenues available.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2008

FINANCIAL HIGHLIGHTS (CONTINUED)

5. Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to \$36,297,611.
6. As reflected in the Statement of Activities, the current fiscal year operations contributed to an increase in the Net Assets figure by \$3,564,842.
7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$14,518,961.
8. In the fund financial statements, the governmental activities revenue increase \$2,702,858 (or 7%) while governmental activities expenditures increase \$213,736 (or 1%).
9. As the end of the current fiscal year the Municipality's general fund balance amounted to \$2,276,176, compared to a fund balance of \$2,080,963 in the prior fiscal year, as restated.
10. The actual General Fund budgetary activities resulted in an unfavorable balance of \$336,379.

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

The new approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2008. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

Under the aforementioned approach, assets and liabilities are recognized using the accrual basis of accounting which is similar to the method used by most private enterprises. This means that current year's revenues and expenses are accounted for regardless of when cash is received or paid.

FINANCIAL STATEMENTS COMPONENTS

The basic financial statements consist of the government wide financial statements, the major funds financial statements and the notes to the financial statements which provide details, disclosure and description of the most important items included in said statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2008

USING THIS ANNUAL REPORT

This annual report consists of a series of new financial statements with a change in the focus from previous financial statements. The new focus is on both the Municipality as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

GOVERNMENT - WIDE FINANCIAL STATEMENTS

The Government-Wide Financial Statements are designed to provide users of the financial statements with a broad overview of the Municipality's finances in a manner similar to private-sector companies.

The Statement of Net Asset presents information on all of the Municipality's assets and liabilities, with the difference between both reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities presents information showing how the Municipality's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the Statement of Activities that will only result in cash flows in future fiscal periods. The Statement of Activities is focused on both the gross and net cost of various activities, which are provided by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

FUND FINANCIAL STATEMENTS

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. The Municipality has only one kind of fund which is the governmental fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements. However, unlike the Government Wide Financial Statements, Government Fund Financial Statements, focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2008

FUND FINANCIAL STATEMENTS (CONTINUED)

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's near term financial decisions. Both of the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

INFRASTRUCTURE ASSETS

Historically, a government's largest group of assets (infrastructure-roads, bridges, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the Governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrated its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

The Municipality elected to depreciate infrastructure assets instead of using the modified approach.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Municipality's combined net assets (excess of assets over liabilities) totaled \$73,878,341 at the end of 2008, compared to \$70,313,499 at the end of the previous year, as restated.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

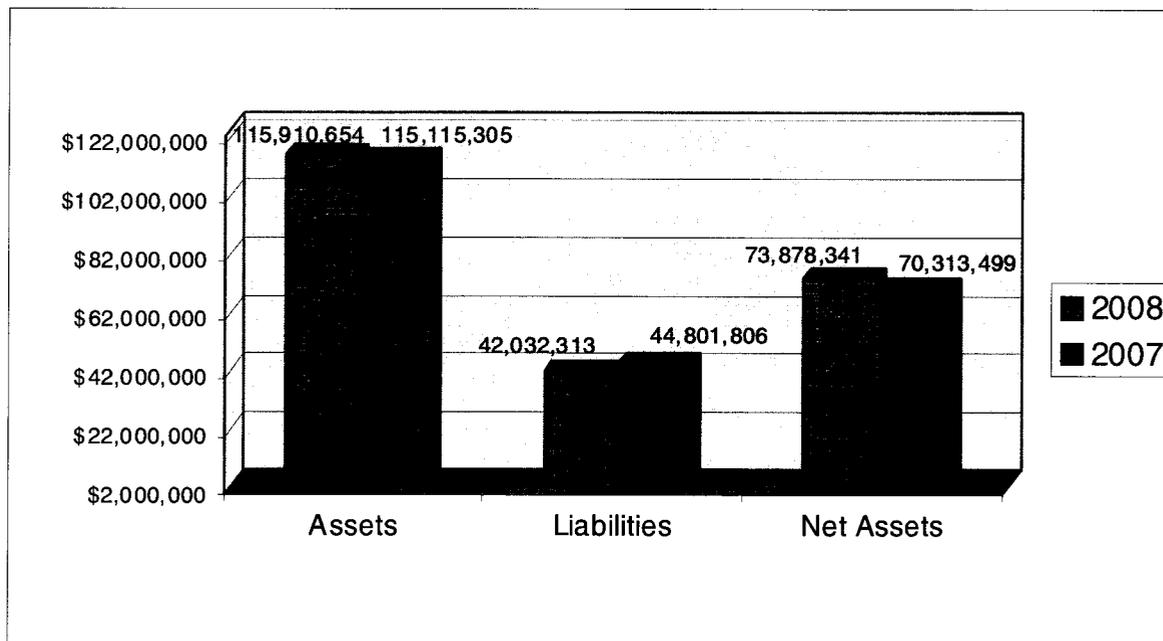
MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2008

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Condensed Statement of Net

Assets	2008	2007	Change	%
Current assets	\$20,922,229	\$23,635,698	(\$2,713,469)	(11%)
Capital assets	94,988,425	91,479,607	3,508,818	4%
Total assets	115,910,654	115,115,305	795,349	1%
Current liabilities	6,403,268	7,655,993	(1,252,725)	(16%)
Noncurrent liabilities	35,629,045	37,145,813	(1,516,768)	(4%)
Total liabilities	42,032,313	44,801,806	(2,769,493)	(6%)
Invested in capital assets, net of related debt	71,978,320	67,059,502	4,918,818	7%
Restricted	12,242,785	13,656,328	(1,413,543)	(10%)
Unrestricted	(10,342,764)	(10,402,331)	59,567	(1%)
Total net assets, as restated	\$73,878,341	\$70,313,499	\$3,564,842	5%



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2008

CHANGES IN NET ASSETS

The Municipality's net assets increase by \$ 3,564,842. Approximately 41 percent of the Municipality's total revenue came from taxes, while 55 percent resulted from grants and contributions, including federal aid. Interest and investment earnings and miscellaneous provided 3 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for health and welfare services, general government, and public works. As follow, is presented a comparative analysis of governmental-wide data. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

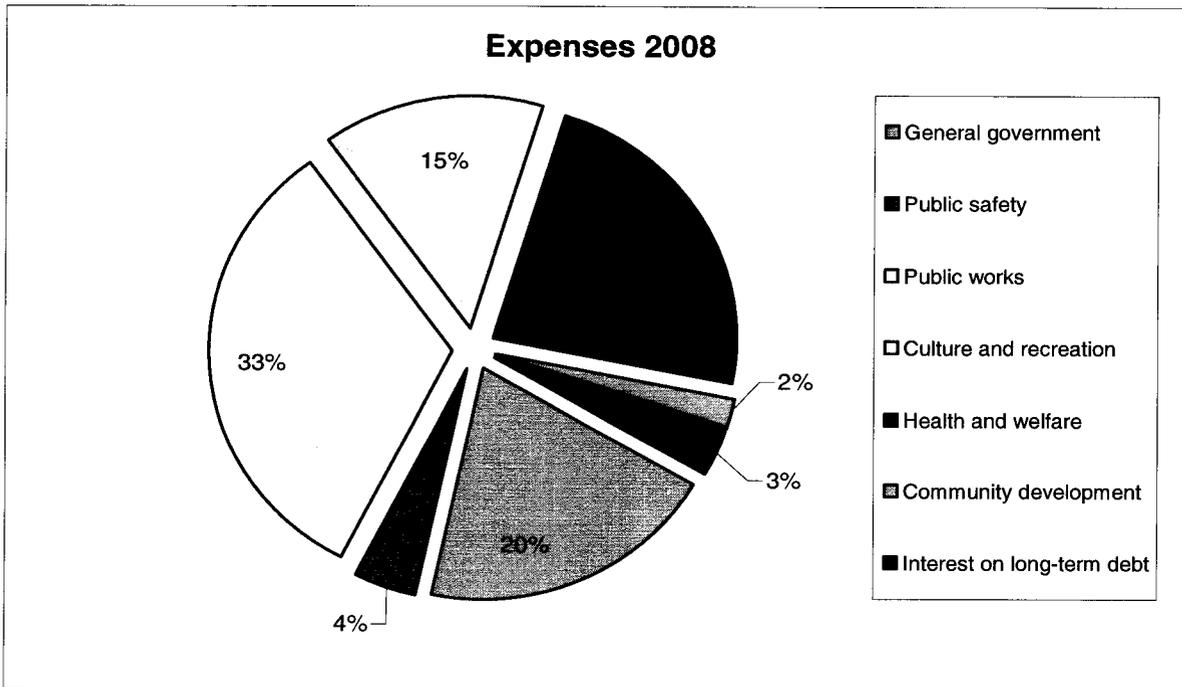
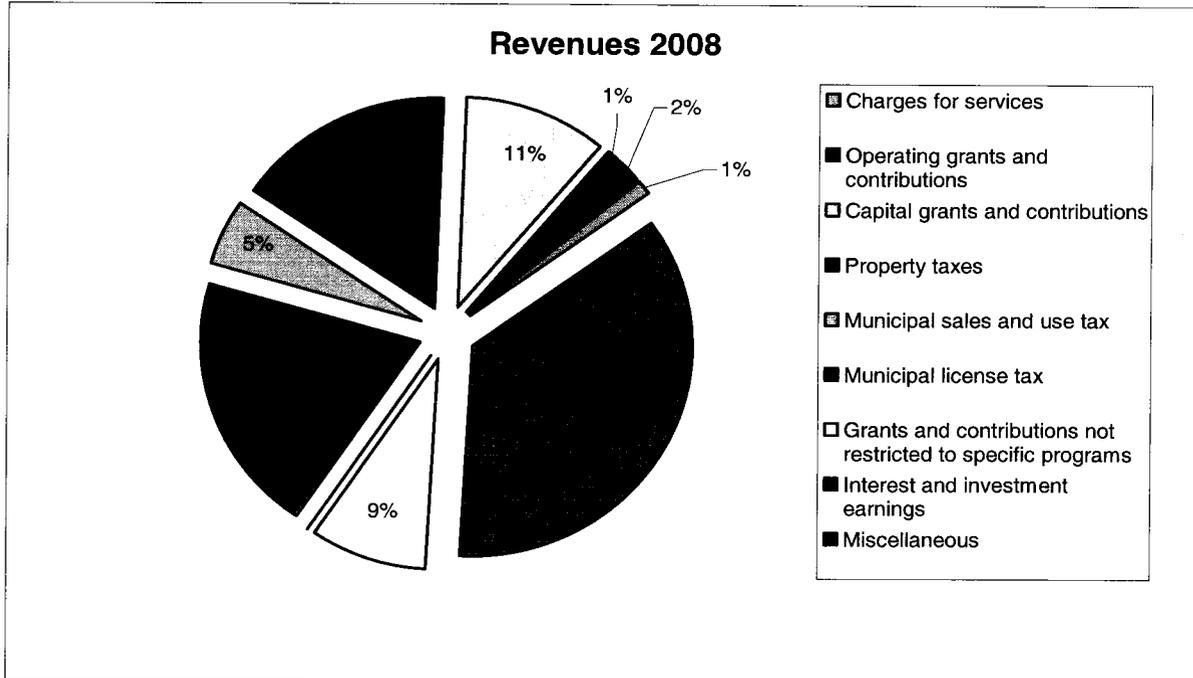
Condensed Statement of Activities	2008	2007	Change	%
Program revenues:				
Charges for services	\$431,515	\$163,745	\$267,770	164%
Operating grants and contributions	14,295,873	14,042,178	253,695	2%
Capital grants and contributions	3,455,195	2,145,433	1,309,762	61%
General revenues:				
Property taxes	7,948,878	8,226,629	(277,751)	(3%)
Municipal sales and use tax	1,959,130	-	1,959,130	100%
Municipal license tax	6,448,740	9,343,678	(2,894,938)	(31%)
Grants and contributions not restricted to specific programs	4,237,340	2,338,837	1,898,503	81%
Interest and investment earnings	347,875	718,131	(370,256)	(52%)
Miscellaneous	737,907	485,886	252,021	52%
Total revenues	39,862,453	37,464,517	2,397,936	6%
Expenses:				
General government	7,276,534	7,374,731	(98,197)	(1%)
Public safety	1,504,548	1,514,375	(9,827)	(1%)
Public works	11,824,292	6,802,717	5,021,575	74%
Culture and recreation	5,318,863	892,516	4,426,347	496%
Health and welfare	8,472,189	14,008,294	(5,536,105)	(40%)
Community development	659,634	1,688,382	(1,028,748)	(61%)
Urban development	-	39,187	(39,187)	(100%)
Education	3,422	5,887	(2,465)	(42%)
Interest on long-term debt	1,238,129	1,209,816	28,313	2%
Total expenses	36,297,611	33,535,905	2,761,706	8%
Change in net assets	3,564,842	3,928,612	(363,770)	(9%)
Net assets, beginning of year, as restated	70,313,499	66,384,887	3,928,612	6%
Net assets, end of year	\$73,878,341	\$70,313,499	\$3,564,842	5%

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2008

CHANGES IN NET ASSETS (CONTINUED)



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2008

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

As noted earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

GOVERNMENTAL FUNDS

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spend able resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$14,518,961 a decrease of \$1,460,744 in comparison with the prior year, as restated. There are reservations of fund balance amounting to \$12,929,531. This is the fund balance that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$686,746), 2) to pay debt service (\$3,275,211), 3) to pay for capital projects (\$6,790,973) and 4) for other purposes (\$2,176,601).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2008, the general fund has a fund balance of \$2,276,176.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Council revised the Municipality's budget in order to include increases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. Increases in budgeted expenditures were also made since the law mandates a balanced budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2008, amounts to \$107,963,953, which upon deduction of accumulated depreciation of \$ 12,975,528 produce a net book value of \$94,988,425. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2008

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Municipality's investment in capital assets for the current fiscal year was about 4% in terms of net book value. Depreciation charges for the year totaled \$ 1,662,831.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2008, the Municipality has \$6,790,973 of unexpended proceeds mainly from bond issuances that are committed to future construction activities.

Debt Administration

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. See "Limitations on Ability of Municipalities to Issue General Obligation Debt-The Municipal Bonds" for a general description of such limitations.

The applicable law also requires that in order for a Municipality to be able to issue additional general obligation bonds and notes such Municipality must have sufficient "payment capacity". Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2008

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five (5%) percent. Federal grant revenues may vary if new grants are available but the revenue also is very predictable.

Those factors were considered when preparing the Municipality's budget for the 2008-2009 fiscal years.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer.

Commonwealth of Puerto Rico
Municipality of Guayama
Statement of Net Assets
June 30, 2008

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 12,491,497
Cash with fiscal agent	7,549,215
Accounts receivable:	
Intergovernmental	192,537
Municipal license tax	3,600
Construction excise taxes	26,996
Interest	16,248
Federal grants	642,136
Capital assets	
Land, improvements, and construction in progress	49,919,977
Other capital assets, net of depreciation	45,068,448
Total capital assets	94,988,425
Total assets	115,910,654
 Liabilities	
Accounts payable and accrued liabilities	1,435,476
Due to other governmental entities	368,526
Deferred revenues:	
Municipal license tax	3,347,747
Federal grant revenues	1,251,519
Noncurrent liabilities:	
Due within one year	2,190,168
Due in more than one year	33,438,877
Total liabilities	42,032,313
 Net Assets	
Invested in capital assets, net of related debt	71,978,320
Restricted for:	
Capital projects	6,790,973
Other purposes	2,176,601
Debt service	3,275,211
Unrestricted (deficit)	(10,342,764)
Total net assets	\$ 73,878,341

The notes to the financial statements are an integral part of this statement.

**Commonwealth of Puerto Rico
Municipality of Guayama
Statement of Activities
For the Year Ended June 30, 2008**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
General government	\$ 7,276,534	\$ 120,355	\$ -	\$ 31,277	\$ (7,124,902)
Public safety	1,504,548		120,976		(1,383,572)
Public works	11,824,292		182,958	3,423,918	(8,217,416)
Health and welfare	8,472,189	311,160	12,230,489		4,069,460
Culture and recreation	5,318,863				(5,318,863)
Community development	659,634		1,761,450		1,101,816
Education	3,422				(3,422)
Interest on long-term debt	1,238,129				(1,238,129)
Total governmental activities	\$ 36,297,611	\$ 431,515	\$ 14,295,873	\$ 3,455,195	(18,115,028)
General revenues:					
					7,948,878
					1,959,130
					6,448,740
					4,237,340
					347,875
					737,907
					<u>21,679,870</u>
					3,564,842
					70,313,499
					<u>\$ 73,878,341</u>

Commonwealth of Puerto Rico
Municipality of Guayama
Balance Sheet
Governmental Funds
June 30, 2008

	General Fund (01)	Special Revenue Fund (02)	Special Revenue Fund Head Start (07)	Capital Projects Fund State & Federal Grants (20 & 21)	Debt Service Fund (10)	Other Governmental Funds	Total Governmental Funds
Assets							
Cash and cash equivalents	\$ 6,048,171	\$ 2,888,859	\$ -	\$ 3,001,424	\$ -	\$ 553,043	\$ 12,491,497
Cash with fiscal agent		102,184		4,203,924	3,243,107		7,549,215
Accounts receivable:							
Municipal license tax	3,600						3,600
Construction excise taxes	26,996						26,996
Intergovernmental				160,433	32,104		192,537
Federal grants		28,875	287,143	260,381		65,737	642,136
Interest	16,248						16,248
Due from other funds	578,993	21,711					600,704
Total assets	\$ 6,674,008	\$ 3,041,629	\$ 287,143	\$ 7,626,162	\$ 3,275,211	\$ 618,780	\$ 21,522,933
Liabilities and Fund Balances							
Liabilities :							
Accounts payable and accrued liabilities	\$ 676,848	\$ 20,410	270,308	\$ 439,540	\$ -	\$ 28,370	\$ 1,435,476
Due to other governmental entities	368,526						368,526
Due to other funds	4,711	472,352	16,835	48,566		58,240	600,704
Deferred revenues:							
Municipal license tax	3,347,747						3,347,747
Federal grant revenues		372,606		347,083		531,830	1,251,519
Total liabilities	4,397,832	865,368	287,143	835,189	-	618,440	7,003,972
Fund balances:							
Reserved for:							
Encumbrances	686,746						686,746
Capital projects				6,790,973			6,790,973
Other purposes		2,176,261				340	2,176,601
Debt service fund					3,275,211		3,275,211
Unreserved:							
Undesigned	1,589,430						1,589,430
Total fund balances	2,276,176	2,176,261	-	6,790,973	3,275,211	340	14,518,961
Total liabilities and fund balances	\$ 6,674,008	\$ 3,041,629	\$ 287,143	\$ 7,626,162	\$ 3,275,211	\$ 618,780	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	94,988,425
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds	(35,629,045)
Net assets of governmental activities	\$ 73,878,341

Commonwealth of Puerto Rico
Municipality of Guayama
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008

	General Fund (01)	Special Revenue Fund (02)	Special Revenue Fund Head Start (07)	Capital Projects Fund State & Federal Grants (20 & 21)	Debt Service Fund (10)	Other Governmental Funds	Total Governmental Funds
Revenues							
Property taxes	\$ 6,029,811	\$ -	\$ -	\$ -	\$ 1,919,067	\$ -	\$ 7,948,878
Municipal sales and use tax	1,959,130						1,959,130
Municipal license taxes	5,868,446						5,868,446
Licenses, permits and other local taxes	580,294						580,294
Intergovernmental	4,237,340	303,940		3,178,114		229	7,719,623
Charges for services	34,332						34,332
Rent of property	76,506						76,506
Fines and forfeitures	9,517						9,517
Interest	347,875						347,875
Federal grants			11,291,064	14,763		2,700,875	14,006,702
Miscellaneous	353,739	689,102		262,319			1,305,160
Total revenues	19,496,990	993,042	11,291,064	3,455,196	1,919,067	2,701,104	39,856,463
Expenditures							
Current:							
General government	9,053,219	28,981		15			9,082,215
Public safety	1,474,710	32,171					1,506,881
Public works	3,870,083	174,597		4,826,486			8,871,166
Health and welfare	3,765,323	7,200	11,291,064			939,425	16,003,012
Culture and recreation	1,102,303	335,322					1,437,625
Community development		23,307				1,761,450	1,784,757
Education		3,422					3,422
Debt service:							
Principal					1,390,000		1,390,000
Interest					1,238,129		1,238,129
Total expenditures	19,265,638	605,000	11,291,064	4,826,501	2,628,129	2,700,875	41,317,207
Excess (deficiency) of revenues over (under) expenditures	231,352	388,042		(1,371,305)	(709,062)	229	(1,460,744)
Other financing sources (uses)							
Transfers in		3,251			36,139		39,390
Transfers out	(36,139)			(3,251)			(39,390)
Total other financing sources (uses)	(36,139)	3,251		(3,251)	36,139		-
Net change in fund balances	195,213	391,293		(1,374,556)	(672,923)	229	(1,460,744)
Fund balance, beginning as restated	2,080,963	1,784,968		8,165,529	3,948,134	111	15,979,705
Fund balance, ending	\$ 2,276,176	\$ 2,176,261	\$ -	\$ 6,790,973	\$ 3,275,211	\$ 340	\$ 14,518,961

*CAD
5/1/08*

**Commonwealth of Puerto Rico
Municipality of Guayama
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2008**

Net Change in Fund Balances - Total Governmental Funds \$ (1,460,744)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. 18,112,697

Capital assets received as a donation are not recorded in the Governmental Funds, because current financial resources are not involved; however, the transaction must be reflected in the Government-Wide Financial Statements based on the fair value of the donated property. This is the amount of donated capital assets recorded in the current period. 5,991

Depreciation expense on capital assets is reported in the Government-Wide Statements of Activities and Change in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds. (1,662,831)

Disposal of capital assets require removal of cost of the capital assets from the capital asset account on the Government-Wide Statement of Net Assets, resulting in a loss on disposal of capital assets on the Government-Wide Statement of Activities and Change in Net Assets. (12,947,039)

Bonds and notes proceeds provide current financial resources to Governmental Funds. Repayment of bonds and notes principal is an expenditure in Governmental Funds, but the repayment reduces long -term liabilities in the Government-Wide Statement of Net Assets. This is the amount by which the debt proceeds exceed debt service principal payments. 1,390,000

Repayment of long term property tax advance debt is an expenditure in Governmental Funds, but the repayment reduces long -term property tax advance debt in the Government-Wide Statement of Net Assets. This is the amount paid in the current period. 256,625

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in Governmental Funds. 338,214

Repayment of long term Land Information Management System (LIMS) debt is an expenditure in Governmental Funds, but the repayment reduces long term LIMS debt in the Government-Wide Statement of Net Assets. This is the amount paid in the current period. 93,014

Long term debt issuances are reported in the Government-Wide Statement of Net Assets, but not require the use of current financial resources. Therefore, Long term debt issuances are not reported as expenditures in Governmental Funds Financial Statements. (561,085)

Change in Net Assets of Governmental Activities \$ 3,564,842

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2008

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Guayama** (the Municipality) was founded on the year 1736. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a sixteen-member Municipal Legislature who are elected for a four-year term.

The Municipality provides a full range of services for its citizens. These services include public safety, public works, culture and recreation, health and welfare, urban development, education, economic development, and other miscellaneous services.

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("USGAAP") as applicable to governmental units.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "Basic Financial Statements and Management's and Discussion and Analysis for State and Local Governments." This Statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way the Municipality prepares and presents financial information. The Statement was adopted as of July 1, 2002. In addition to this Statement, GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" have been adopted and are reflected in these financial statements.

As part of this Statement, there is a new reporting requirement regarding the capitalization of local government infrastructure (roads, bridges, traffic signals, etc.). This requirement permits an optional four-year delay for implementation to fiscal year ended on June 30, 2007. The Municipality implemented the capitalization of infrastructure since July 1, 2006.

The following is a summary of the significant accounting policies of the Municipality:

A. Component Units

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, The Financial Reporting Entity, of the GASB, as amended by the GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units an amendment of GASB Statement 14". The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

the primary governmental appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Based on the above criteria, the Municipality does not have components units to include within its reporting entity.

B. Government-wide and fund financial statements

Financial information of the Municipality is presented in this report as follow:

1. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
2. The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all the activities of the Municipality and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, if any, which rely to a significant extent on fees and charges for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

3. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Municipality reports the following major governmental funds:

General Fund (01) - is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and other.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Special Revenue Fund (02) – is the accounting entity in which revenues derived from federal and state grants, is accounted for. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Special Revenue Fund- Head Start (07) – is the accounting entity, in which revenues derived from head start and child and adult care food program grants, is accounted for. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Capital Projects Fund –State and Federal Grants (20 & 21) - is the accounting entity in which revenues derived from state funds, and federal grants or other restricted revenue sources related to capital projects, is accounted for. The uses and limitations of each capital project fund are specified by Municipality ordinances or federal and state statutes.

Debt Service Fund (10) - is the accounting entity used to account for the resources accumulated and payments made for principal and interest on long-term general obligation bonds of governmental funds.

4. The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.
5. Required supplementary information such as the budgetary comparison schedule general fund and other types of data required by GASB.
6. Notes to the budgetary comparison schedule-general fund.

C. Financial reporting presentation

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

General Fund- General Fund is the general operating fund of the Municipality. It is used to account for all governmental activity, except those required to be accounted for in another fund.

Special Revenue Funds - State & Local Grants - Special Revenue Funds are used to account for revenues derived from local funds, state grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Special Revenue Fund- Section 8 – Special Revenue Funds are used to account for revenues derived from section 8 choice voucher program. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Special Revenue Fund – Head Start – Special Revenue Funds are used to account for revenues derived from head start and child and adult care food program funds. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Special Revenue Fund – Other Federal Grants – Special Revenue Funds are used to account for revenues derived from federal grants. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Capital Projects Fund – State & Federal Grants – Capital Project Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

Capital Projects Fund – Federal Grants – Capital Project Funds are used to account for revenues derived from federal grants related to capital projects. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Debt Service Fund – Debt Service Fund are used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

D. Measurement focus, basis of accounting and financial presentation

Except for budgetary purposes, the basis of accounting used by the Municipality conform to accounting principles generally accepted in the United States of America (“USGAAP”) as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Municipality has elected not to apply all Statements and Interpretations issued by the Financial Accounting Standard Board after November 30, 1989, in accordance with GASB Statement No.20.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditure in governmental funds. Proceeds from issuance of general long-term debt reported as other financing sources.

Property taxes, other taxes, licenses, rent and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

Private-sector standards of accounting and financial reporting issue prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Municipality has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants, and contributions, and 3) capital grants and contributions, including special assessments, if any. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources, as they are needed.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, liabilities and net assets

1. **Cash and cash equivalents, and cash with fiscal agent** - The Municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law. Also, cash with fiscal agent consist of unused proceeds of bonds and notes issued for the acquisition of equipment and construction of major capital improvements.

2. **Receivables and payables** - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental and federal grant receivable in the special revenue or capital project funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded or state founded programs. Intergovernmental in the debt service fund represent the distribution of property tax collected by the Municipal Revenue Collection Center (CRIM), which is restricted for the debt service.

3. **Inventories** - Inventories in the general fund is recorded as expenditure and, consequently, the inventory is not recorded in the statement of net assets.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. **Capital assets** - Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$25 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Municipality, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

Description	Useful Life	Capitalization threshold
Buildings and site improvements	40 years	\$ 1
Infrastructure	40 years	\$ 1
Works of art	10 years	\$ 1
Vehicles	5 years	\$ 1
Furniture and fixtures	5 years	\$ 25
Machinery and equipment	3 to 5 years	\$ 25

5. **Long-term obligations** - The liabilities reported in the government-wide financial statements include the general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities and landfill closure and post closure care costs.

In the fund financial statements, governmental fund types recognize bond issuances cost, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the general fund.

6. **Compensated absences** - Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay it is accrued when incurred in the government-wide financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality. All sick leave pay and salary related benefits are accrued when incurred in the governmental-wide financial statements when the employee meets such criteria.

7. **Claims and judgments** - The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when the liability is incurred.
8. **Reservations of fund balance** - Reservations of fund balance in the fund financial statements represent portions of fund balances that are legally segregated for specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:
 - a. **Encumbrances**- Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
 - b. **Capital Projects** - Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
 - c. **Debt Service Fund**- Represents net assets available to finance future debt service payments.
 - d. **Other Purposes**- Represents net assets available for specific use and/or legally segregated for other specific future use.
9. **Interfund and intra-entity transactions** - The Municipality has the following types of transactions among funds:
 - a. **Operating Transfers**- Legally required transfers that are reported when incurred as "Operating transfer-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.
 - b. **Intra-Entity Transactions**- Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

10. Risk financing- The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico.

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipality Revenue Collector Center (CRIM) for the year ended June 30, 2008 amounted to approximately \$281,000. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$606,000 for workers compensation insurance covering all municipal employees.

11. Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. The two elements of that reconciliation explains that “long term liabilities, including compensated absences, bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds”, and that “capital assets used in governmental activities are not financial resources” and, therefore, are not reported in the funds. The detail of this reconciliation is as follows:

		<u>Total Net Assets - Governmental Activities</u>
<u>Net assets invested in capital assets, net of related debt</u>		
Capital assets, net of depreciation	\$ 94,988,425	
Deduct:		
Bonds and Notes Payable	<u>(23,010,105)</u>	\$ 71,978,320
<u>Net assets restricted for capital projects</u>		
Fund balance restricted for capital projects		6,790,973
<u>Net assets restricted for debt service</u>		
Fund balance restricted for debt service		3,275,211
<u>Net assets restricted for other purposes</u>		
Fund balance restricted for other purposes		2,176,601
<u>Net assets unrestricted (deficit)</u>		
General fund - total fund balance:	\$ 2,276,176	
Deduct:		
Compensated absences	(3,334,176)	
Landfill obligation	(8,108,770)	
Property Tax Debt-Law 42	(127,505)	
Treasury Department	(676,428)	
LIMS	<u>(372,061)</u>	<u>(10,342,764)</u>
Total net assets - governmental activities		<u>\$ 73,878,341</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

2. DEPOSITS

Under Commonwealth of Puerto Rico statutes public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of \$6,048,171 in the general fund (01), \$2,888,859 in the special revenue fund (02), and \$3,001,424 in the capital projects fund - state & federal grants (20 & 21) were fully collateralized at June 30, 2008. In the other governmental funds there were deposits with commercial banks of approximately \$553,043 that were fully collateralized.

The deposits at GDB of \$4,203,924 are restricted principally for capital projects (20 & 21), \$102,184 in the special revenue fund (02) are restricted for others purposes and the \$3,243,107 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

3. RECEIVABLES

a. **Municipal License Tax**- The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2008, the tax rates were as follows:

1. Financial business - 1.50% of gross revenues
2. Other organizations - 0.50% of gross revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2008, net of allowance for uncollectible. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year is recorded as deferred revenues.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

3. RECEIVABLES (CONTINUED)

- b. **Construction excise tax**- Construction excise tax receivables amounting to \$ 26,996 in the general fund represent a payment agreement formalized by the Municipality during the fiscal year 2007-08.
- c. **Intergovernmental Receivables**- Intergovernmental receivables in the Capital Projects Fund consist of amounts due from the Governmental Development Bank of Puerto Rico.
- d. **Federal Grants Receivables**- Federal Grants receivable in Special Revenue and Capital Projects Funds mainly consist in expenditures incurred not yet reimbursed by the CDBG and FEMA Programs.

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2008 are summarized as follows:

a. Due from/to other fund:

<u>Fund</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>
General Fund (01)	\$ 578,993	\$ 4,711
Special Revenue Fund (02)	21,711	472,352
Special Revenue Fund- Head Start (07)		16,835
Capital Projects Funds (20 & 21)		48,566
Other Governmental Fund (03 & 70)	-	58,240
Total	<u>\$ 600,704</u>	<u>\$ 600,704</u>

b. Transfer in/out to other fund

Following is a summary of interfund transfers for the year:

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Debt Service Fund	Transfer funds to cover debt services payments	\$ 36,139
Capital Projects Fund (20 & 21)	Special Revenue Fund (02)	Transfer of funds for special funds outlays	3,251
Total			<u>\$ 39,390</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

5. CAPITAL ASSETS

Capital assets; those with an estimated useful live of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2008, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

Governmental Activities:	Balance July 1, 2007	Additions	Retirement/ Reclassifications	Balance June 30, 2008
Capital asset, not being depreciated:				
Construction in Progress	\$ 17,656,873	\$ 3,467,292	\$ (12,947,039)	\$ 8,177,126
Land	41,666,273	76,578		41,742,851
Total capital assets not being depreciated	<u>59,323,146</u>	<u>3,543,870</u>	<u>(12,947,039)</u>	<u>49,919,977</u>
Capital assets, being depreciated:				
Buildings and building improvements	28,057,862	13,712,772		41,770,634
Infrastructure and infrastructure improvements	12,055,105	698,288		12,753,393
Equipment	982,074	93,614		1,075,688
Computers	203,604	16,227		219,831
Works of art	7,400			7,400
Furnishing	849,115	29,850		878,965
Vehicles	1,313,998	24,067		1,338,065
Total capital assets being depreciated	<u>43,469,158</u>	<u>14,574,818</u>	<u>-</u>	<u>58,043,976</u>
Less accumulated depreciation for:				
Buildings and building improvements	(2,412,867)	(996,329)		(3,409,196)
Infrastructure and infrastructure improvements	(6,187,310)	(419,079)		(6,606,389)
Equipment	(778,138)	(73,150)		(851,288)
Computers	(169,848)	(20,221)		(190,069)
Works of art	(1,502)	(740)		(2,242)
Furnishing	(801,892)	(20,091)		(821,983)
Vehicles	(961,140)	(133,221)		(1,094,361)
Total accumulated depreciation	<u>(11,312,697)</u>	<u>(1,662,831)</u>	<u>-</u>	<u>(12,975,528)</u>
Total capital assets being depreciated, net	<u>32,156,461</u>	<u>12,911,987</u>	<u>-</u>	<u>45,068,448</u>
Governmental activities capital assets, net	<u>\$ 91,479,607</u>	<u>\$ 16,455,857</u>	<u>\$ (12,947,039)</u>	<u>\$ 94,988,425</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

5. CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs of the Municipality as follows:

<u>Governmental activities:</u>	<u>Amount</u>
General government	\$ 747,780
Public safety	16,274
Health and Welfare	6,538
Public works	352,867
Culture and recreation	239,236
Urban Development	11,835
Community development	235,634
Education	<u>52,667</u>
Total depreciation expense-governmental activities	<u>\$1,662,831</u>

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2008 are summarized as follows:

Description	General Fund (01)	Special Revenue Fund (02)	Special Revenue Fund - Head Start (07)	Capital Projects Fund - State & Local Grants (20&21)	Debt Service Fund (10)	Other Governmental Funds (03&70)	Total
Accounts payable	\$ 238,226	\$ 20,410	\$ 270,308	\$ 439,540	\$ -	\$ 28,370	\$ 996,854
Accrued liabilities	<u>438,622</u>	-	-	-	-	-	<u>438,622</u>
Total	<u>\$ 676,848</u>	<u>\$ 20,410</u>	<u>\$ 270,308</u>	<u>\$ 439,540</u>	<u>\$ -</u>	<u>\$ 28,370</u>	<u>\$ 1,435,476</u>

7. PROPERTY TAXES

The personal property tax is self assessed by the taxpayer on a return which is to be filed by May 15 of each year with the CRIM, a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomous Law of August 1991. Real property tax is assessed by the CRIM on each piece of real estate and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

7. PROPERTY TAXES (CONTINUED)

the Municipality of the estimated amount of property tax expected to be collect for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$ 3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$50,000 of the assessed value to retailers having annual net sales of less than \$150,000.

On January 26, 2000, Public Law No. 42 was enacted which authorized the CRIM to obtain a loan up to \$200,000,000, and for a term not to exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year ended June 30, 2000. The amounts that the Municipalities will collect from additional property taxes resulting from increases in the subsidy from the Commonwealth of Puerto Rico to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law No. 238, enacted on August 15, 1999. On October 11, 2001, Public Law No. 146 was enacted to amend Public Law No. 42, to extend the loan amortization period up to 30 years.

Also, on October 11, 2002, Public Law No. 172 was enacted, to provide as an option for the Municipalities to include the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections for the fiscal year ended June 30, 2001 with the loan authorized through Public Law No. 42 enacted on January 26, 2000.

On June 26, 1997, Public Law No. 21 was enacted which authorized the CRIM to sell property tax receivables related to taxpayers who owned property taxes from 1974 to 1996. The property tax receivables were purchased by Public Financing Corporation, a subsidiary of the Government Development Bank (GDB), with proceeds of a bonds

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

7. PROPERTY TAXES (CONTINUED)

issuance. This Law imposes to the CRIM the obligation to replace any uncollectible property tax receivable with any valid property tax receivables or equivalent in money.

A high percentage of receivables were determined to be uncollectible receivables, and therefore, on October 11, 2001, Public Law No. 146 was enacted which authorized the CRIM to obtain a loan to pay in advance the bonds issued by the Public Financing Corporation (a GDB subsidiary), and any costs related to the transaction. Also, a term not to exceeding 30 years was authorized to the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from the sale of property tax receivables to the Public Financing Corporation (a GDB Subsidiary).

The annual tax rate is 8.33% for real property and 6.33% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.8% and 3.8%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.50% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth also contributes an annual tax rate of 0.2% of the property tax collected and such amount is accounted for similar to item (a) above.

8. MUNICIPAL SALES AND USE TAX

On July 29, 2007, an amendment to Act No. 117 of July 4, 2006, known as the "Tax Fairness Act of 2006", was enacted with the purpose of establishing a mandatory sales and use tax of 1.5% at the Municipal Level. The Municipalities of Puerto Rico are responsible to collect 1% of the corresponding tax with the same exemptions and limitations that the portion collected by the Treasury Department. The Act provides an optional surtax on the un-process food. This surtax must be approved by the Municipal Legislature.

The Treasury Department is responsible to create: the Municipal Development Fund (.02%), the Municipal Redemption Fund (.02%) and the Municipal Improvements Fund (.01%) with the remaining 0.5%.

The Municipality collected approximately \$ 1,960,000 during the year ended June 30, 2008.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

9. DUE TO OTHER GOVERNMENTAL ENTITIES

The amounts due to other governmental entities in the General Fund include the following:

<u>Governmental Agency</u>	<u>Amount</u>
Puerto Rico Aqueduct and Sewer Authority	\$ 138,239
General Services Administration	93,503
State Insurance Fund	128,933
Department of Labor and Human Resources	<u>7,851</u>
Total	<u>\$ 368,526</u>

The Municipality reached agreements with other governmental entities for the payment of debts on a long-term basis. These liabilities are presented in the Statement of Net Assets as non-current liabilities.

10. DEFERRED REVENUES

- a. **Municipal License Tax-** The deferred revenues of \$3,347,747 in the general fund relates to municipal license tax collected in fiscal year 2007-08 that will be earned in fiscal year 2008-09.
- b. **Federal Grants-** The deferred revenues presented in the, special revenue fund (02), capital projects fund-federal grants (20 & 21) and in other governmental funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount per program</u>	<u>Amount</u>
<u>Special Revenue Fund (02)</u>		
Housing Preservation Grants	\$ 23,637	
Disaster Grants - Public Assistance	183,901	
FEMA	158,871	
Other Programs	<u>6,197</u>	\$ 372,606
<u>Capital Projects Fund-Federal Grants (20 & 21)</u>		
Urban Development Action Grant	10,393	
FEMA	334,908	
Other Programs	<u>1,782</u>	347,083
<u>Other Governmental Funds (03 & 70)</u>		
Section 8 Housing Choice Voucher	<u>531,830</u>	<u>531,830</u>
Total		<u>\$ 1,251,519</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

11. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance, as restated	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds Payable	\$ 24,225,105	\$ -	\$ (1,335,000)	\$ 22,890,105	\$ 1,421,000
Note Payable	175,000		(55,000)	120,000	55,000
Property Tax Debt-Law 42	129,690		(2,185)	127,505	2,322
Property Tax Advances	254,440		(254,440)		
Treasury Department	1,014,642		(338,214)	676,428	338,214
LIMS	465,075		(93,014)	372,061	98,632
Compensated Absences	3,181,430	152,746		3,334,176	275,000
Landfill Obligation	7,700,431	408,339		8,108,770	
Total	<u>\$ 37,145,813</u>	<u>\$ 561,085</u>	<u>\$ (2,077,853)</u>	<u>\$ 35,629,045</u>	<u>\$ 2,190,168</u>

- a. **Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment if property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds payable, is paid with unrestricted funds.
- b. **Bonds Payable-** The Municipality issues general and special obligation bonds to provide funds for the acquisition of equipment and construction of major capital facilities. Bonds payable outstanding at June 30, 2008 are as follows:

Type of bonds	Maturity date	Original amount	Range of Interest rates	Balance at June 30, 2008
1995 Series	7-1-10	4,765,000	6.11% to 7.71%	\$ 990,000
1996 Series	7-1-21	5,105,000	4.70% to 6.63%	3,840,000
1996 Series	1-1-20	27,000	4.50%	16,000
1996 Series	1-1-20	550,000	4.50%	399,105
1997 Series	7-1-17	400,000	3.28% to 5.00%	225,000
1998 Series	7-1-13	825,000	2.70% to 4.50%	400,000
2000 Series	7-1-25	4,590,000	2.70% to 5.60%	3,885,000
2000 Series	7-1-18	3,840,000	2.70% to 5.01%	2,710,000
2003 Series	7-1-28	705,000	5.00% to 6.00%	635,000
2003 Series	7-1-28	2,450,000	5.00% to 6.00%	2,215,000
2004 Series	7-1-24	1,810,000	2.36% to 6.00%	1,600,000
2005 Series	7-1-20	1,810,000	3.28% to 5.00%	1,545,000
2005 Series	7-1-29	4,745,000	4.37% to 5.00%	4,430,000
Total general obligation bonds				<u>\$22,890,105</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

11. LONG-TERM LIABILITIES (CONTINUED)

These bonds are payable from the special ad valorem property tax of 1.50% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

Annual debt service requirements to maturity for bonds payable is as follow:

Year Ending June 30,	Principal	Interest
2009	1,421,000	1,152,469
2010	1,532,000	1,069,845
2011	1,088,000	1,000,446
2012	1,164,000	946,288
2013	1,246,000	887,335
2014-2018	6,961,000	3,446,457
2019-2023	5,558,105	1,687,589
2024-2028	3,285,000	536,635
2029-2033	635,000	32,253
Total	<u>\$22,890,105</u>	<u>\$10,759,317</u>

- c. **Note Payable-** The proceeds of the issuance of notes payable are used principally to pay debt incurred in prior years and to cover the expenditures of a special event. The note is payable as follow:

Type of note	Maturity date	Original amount	Range of Interest rates	Balance at June 30, 2008
2003 Series	7-1-10	355,000	4.17% to 5.00%	<u>120,000</u>
Total general obligation note				<u>\$120,000</u>

This note is payable from the special ad valorem property tax of 1.50% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

Annual debt service requirements to maturity for notes payable are as follows:

Year Ending June 30,	Principal	Interest
2009	55,000	4,013
2010	65,000	1,424
Total	<u>\$120,000</u>	<u>\$ 5,437</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

11. LONG-TERM LIABILITIES (CONTINUED)

- d. **Advances from CRIM-** This amount represents the balance owed to the CRIM at June 30, 2008 will be repaid through a financing obtained by the CRIM with GDB.
- e. **Property Taxes Debts-** These amounts represents the balance owned to the Treasury Department and to the Municipal Revenue Collection Center ("CRIM") at June 30, 2008 as described in Note 7.
- f. **Compensated Absences-** The government-wide statement of net assets includes \$2,077,453 of accrued sick leave benefits, and \$1,256,723 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
- g. **Landfill obligation-** State and federal laws and regulations require the Municipality to place a final cover on its landfill site, when it stopped accepting waste, and perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs", the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Based on this study, the Municipality has recognized \$8,108,770 as the Municipality's estimated current cost for landfill closure and post-closure costs as of June 30, 2008. The annual estimate of post closure costs has been assessed approximately to be \$ 70,000 for a period of approximately 30 years. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. The balance of closure and post-closure costs are reported in the government-wide statement of net assets.

12. PENSION PLAN

The Employee's Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) is a cost-sharing multiple defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

12. PENSION PLAN (CONTINUED)

Members who have attained 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit payable monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total Municipality contributions to the above-mentioned plans during the year ended June 30, 2008 recorded as pension expenditures were approximately **\$535,000**. This amount represented 100% of the required contribution.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employee's participation in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 1, 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% to the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

12. PENSION PLAN (CONTINUED)

Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

Additional information on the Retirement System is provide in its financial statements for the year ended June 30, 2008, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42004, San Juan, PR 00940.

13. RISK MANAGEMENT

The Property Division of the Municipality is responsible of assuring that the Municipality's property is properly insured. Annually, the Property Division compiles the information of all property owned and its respective market value. After evaluating this information, the Property Division submits the data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

14. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements that have effective dates after June 30, 2008:

- a. GASB Statement No.51, Accounting and Financial Reporting for Intangible Assets, which is effective for periods beginning after June 15, 2009.
- b. GASB Statement No.52, Land and Other Real Estate Held as Investments by Endowments, which is effective for periods beginning after June 15, 2008.

The impact of these statements on the Municipality's basic financial statements has not yet been determined.

15. COMMITMENTS AND CONTINGENCIES

A. Federal grants:

The Municipality participates in a number of Federal Financial Assistance Programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2008, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Municipality expects such amounts, if any, not to be material.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

15. COMMITMENTS AND CONTINGENCIES (CONTINUED)

B. Claims and lawsuits:

The Municipality is a defendant in several legal proceedings that arise in the ordinary course of the Municipality's activities. Certain of these claims are covered by insurance. The administration believes that the ultimate liability, if any, would not be significant. As a result, the accompanying financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings.

16. PRIOR PERIOD ADJUSTMENTS

A. GOVERNMENTAL FUND FINANCIAL STATEMENTS

The following restatements have been made in the governmental fund financial statements, which are reported as an adjustment to the beginning fund balances:

Description	General Fund (01)	Special Revenue Fund (02)	Special Revenue Fund - Head Start (07)	Capital Projects Fund - State & Local Grants (20&21)	Debt Service Fund (10)	Other Governmental Funds (03&70)	Total
Fund balance, beginning	\$ 2,883,387	\$ 1,893,429	\$ -	\$ 7,823,143	\$ 3,948,134	\$ (8,378)	\$ 16,539,715
To adjust the cash balances as per special funds analysis	(190,027)	(108,461)		342,386		8,489	52,387
To adjust prior years interfund transactions	(612,397)	-	-	-	-	-	(612,397)
Fund balance, beginning as restated	<u>\$ 2,080,963</u>	<u>\$ 1,784,968</u>	<u>\$ -</u>	<u>\$ 8,165,529</u>	<u>\$ 3,948,134</u>	<u>\$ 111</u>	<u>\$ 15,979,705</u>

B. GOVERNMENTAL WIDE FINANCIAL STATEMENTS

The following restatements have been made in the governmental wide financial statements, which are reported as an adjustment to the beginning net assets:

Description	Governmental Activities
Net assets, beginning	\$ 70,190,154
To adjust the cash balances as per special funds analysis	52,387
To adjust prior years cash balances interfund transactions	(612,397)
To correct prior years account receivable	(76,565)
To adjust prior years long-term liability activity	<u>759,920</u>
Net assets, beginning as restated	<u>\$ 70,313,499</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
SEE NOTES OF BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues and budget carryover:				
Property taxes	\$ 6,259,681	\$ 6,259,681	\$ 6,029,811	\$ (229,870)
Municipal license tax	7,070,000	7,070,000	5,868,446	(1,201,554)
Licenses, permits and other local taxes	1,076,000	1,076,000	580,294	(495,706)
Intergovernmental	4,181,700	4,181,700	4,237,340	55,640
Rent of property	19,980	19,980	76,506	56,526
Fines and forfeitures	20,000	20,000	9,517	(10,483)
Interest	650,000	650,000	347,875	(302,125)
Miscellaneous	175,000	175,000	353,739	178,739
Charge for Services	<u>98,000</u>	<u>98,000</u>	<u>34,332</u>	<u>(63,668)</u>
Total revenues	19,550,361	19,550,361	17,537,860	(2,012,501)
Budgeted carryover (1)	<u>-</u>	<u>1,751,995</u>	<u>1,751,995</u>	<u>-</u>
Total revenues after carryover	<u>19,550,361</u>	<u>21,302,356</u>	<u>19,289,855</u>	<u>(2,012,501)</u>
Expenditures and other financing uses:				
Current:				
General government	8,212,157	9,125,912	9,127,844	(1,932)
Public safety	2,017,757	2,021,207	1,507,155	514,052
Public works	3,700,558	4,453,911	3,967,420	486,491
Health and welfare	4,296,435	4,307,947	3,869,149	438,798
Culture and recreation	1,323,454	1,355,004	1,118,525	236,479
Transfer to other fund	<u>-</u>	<u>38,375</u>	<u>36,139</u>	<u>2,236</u>
Total expenditures and other financing uses	<u>19,550,361</u>	<u>21,302,356</u>	<u>19,626,232</u>	<u>1,676,124</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses			<u>\$ (336,377)</u>	<u>\$ (336,377)</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 19,289,855
Differences-budget to GAAP:				
Budgeted carryover				(1,751,995)
Non-budgeted revenues				<u>1,959,130</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 19,496,990</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 19,626,232
Differences-budget to GAAP:				
Prior year encumbrances recorded as current year expenditures for GAAP basis				362,291
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(686,746)</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 19,301,777</u>

(1) Represents fund balance carried over from prior year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

NOTES OF BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2008

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with USGAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operations of the general fund. For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For USGAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2008 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2008.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2008

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S DEPARTMENT OF AGRICULTURE			
Pass-through Commonwealth of Puerto Rico Department of Education:			
Child Care and Adult Food Program	10.558	Not Available	\$ 1,146,430
Total U.S. Department of Agriculture			<u>1,146,430</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Programs:			
Community Development Block Grant - Entitlement Grants	14.218		1,357,350
Urban Development Action Grants	14.221		6,210
Direct Programs:			
Section 8 - Housing Choice Voucher	14.871		939,425
Pass-through Office of the Commissioner Of Municipal Affairs:			
Community Development Block Grant - State Program	14.228	98-DR-26	<u>404,100</u>
Total U.S. Department of Housing And Urban Development			<u>2,707,085</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Pass-through the Commonwealth of Puerto Rico Governor Authorized Representative (GAR):			
Public Grants - Public Assistance	83.544	1247-DRPR 1501-DRPR	88,334

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2008

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Pass-through the Commonwealth of Puerto Rico Governor Office - Public Security Affairs Office:			
Homeland Security Grant Program	97.067	Not Available	<u>28,875</u>
Total U.S. Department of Homeland Security			<u>117,209</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Pass-through the Commonwealth of Puerto Rico - Administration for Children and Families:			
Head Start Program	93.600	Not Available	<u>10,144,634</u>
Total U.S. Department of Health and Human Services			<u>10,144,634</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$14,115,358</u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2008

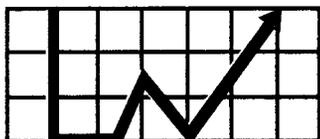
1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Municipality of Guayama** and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the basic financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule are included in the Special Revenue Fund (02), Head Start Program (07), Capital Projects Fund & Federal Grants (20 & 21) and in the Other Governmental Funds (03 & 70) in the Municipality's fund financial statements. The reconciliation between the expenditures in the funds financial statements and the disbursements in the Schedule of Expenditures of Federal Awards is as follows:

Description	Special Revenue Fund-(02)	Special Revenue Fund- Head Start (07)	Capital Projects Fund & Federal Grants (20 & 21)	Other Governmental Funds (03 & 70)	Total
Per Schedule of Expenditures Of Federal Awards	\$ 117,209	\$ 11,291,064	\$ 6,210	\$ 2,700,875	\$ 14,115,358
Non federal programs expenditures	487,791	-	4,820,291	-	5,308,082
Total expenditures in the basic financial statement	<u>\$ 605,000</u>	<u>\$ 11,291,064</u>	<u>\$4,826,501</u>	<u>\$ 2,700,875</u>	<u>\$ 19,423,440</u>



López-Vega, CPA, PSC

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor
and the Municipal Legislature
Municipality of Guayama
Guayama, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Guayama, Puerto Rico**, as of and for the year ended June 30, 2008, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated December 29, 2008, which was unqualified. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Guayama's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Municipality of Guayama's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Municipality of Guayama's** internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects **Municipality of Guayama's** ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of **Municipality of Guayama's** financial statements that is more than inconsequential will not be prevented or detected by **Municipality of Guayama's** internal control. Significant deficiencies are described in the accompanying schedule of findings and questioned costs as item **08-01** and **08-02**.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (CONTINUED)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by **Municipality of Guayama's** internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weakness. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Municipality of Guayama's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Municipality of Guayama's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit **Municipality of Guayama's** response and, accordingly, we express no opinion on it.

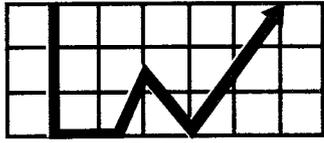
This report is intended solely for the information and use of the management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


LOPEZVEGA, CPA, PSC

San Juan, Puerto Rico
December 29, 2008

Stamp No. 2312214 of the Puerto Rico
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was affixed to the record copy of this report.





López-Vega, CPA, PSC

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH REQUIRED OMB-CIRCULAR A-133

**To the Honorable Mayor
and the Municipal Legislature
Municipality of Guayama
Guayama, Puerto Rico**

Compliance

We have audited the compliance of the **Municipality of Guayama** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The **Municipality of Guayama's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality of Guayama's** management. Our responsibility is to express an opinion on the **Municipality of Guayama's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Municipality of Guayama's** compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the **Municipality of Guayama's** compliance with those requirements.

As described in items **08-05** through **08-08** in the accompanying schedule of findings and questioned costs, **Municipality of Guayama** did not comply with requirements regarding Cash Management, Matching, Level of Effort, Earmarking and Reporting that are applicable Head Start Program (CFDA Number **93.600**). Compliance with such requirements is necessary, in our opinion, for **Municipality of Guayama** to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the **Municipality of Guayama** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH REQUIRED OMB-CIRCULAR A-133 (CONTINUED)

However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as items **08-03** and **08-04**.

Internal Control Over Compliance

The management of the **Municipality of Guayama** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the **Municipality of Guayama's** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Municipality of Guayama's** internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exist when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of federal program on timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items, **08-03** through **08-08** to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirements of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items **08-05** through **08-08** to be material weaknesses.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH REQUIRED OMB-CIRCULAR A-133 (CONTINUED)

The Municipality of Guayama's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Municipality of Guayama's response and, accordingly, we express no opinion on it.

We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the Municipality of Guayama in a separate letter dated March 27, 2009.

This report is intended for the information of the management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 27, 2009

Stamp No. 2312215 of the Puerto Rico
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was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2008

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness identified?	Yes	No X
Significant deficiencies identified not considered to be material weaknesses?	Yes X	None reported
Noncompliance material to financial statements noted?	Yes	No X

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes X	No
Significant deficiencies identified not considered to be material weaknesses?	Yes X	None reported
Type of auditor’s report issued on compliance for major programs:	Unqualified , except for qualified for Head Start Program 93.600	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes X	No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.558	Child Care and Adult Food Program
14.218	Community Development Block Grant – Entitlement’s Program
93.600	Head Start Program

Dollar threshold used to distinguish Between Type A and Type B programs	\$423,461
Auditee qualified as low-risk auditee?	Yes No X

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

Section II – Financial Statements Findings

Finding Reference	08-01
Requirement	Financial Reporting – Accounting Records
Statement of Condition	During our examination of the Municipality’s accounting system we noted that it does not summarize the transactions in a formal General Ledger in order to properly record and account for the transactions of all of its Governmental Funds (Local, State and Federal funds) and Account Groups.
Criteria	Chapter VII Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.
Cause of Condition	The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarized in the form of a double-entry general ledger record.
Effect of Condition	The Municipality accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.
Recommendation	We recommend that the Municipality should implement internal control and procedures in order to maintain an accounting system that contains information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
Questioned Costs	None
Management Response and Corrective Action	The Municipality maintains two sets of accounting records; a manual system and a computerized system provided in the past by the Office of the Commissioner of Municipal Affairs (OCAM). Actually, all of the transactions were recorded in both systems, but the manual system is the primary financial record for financial statements preparation purposes at the end of each fiscal year, due to the fact that the computerized system real accounts balances carried forward from prior years were affected by accounting errors in the first years of the system operation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

Section II - Financial Statements Findings

Finding Reference

08-01 (Continued)

Nevertheless, as part of our corrective action plan, management is considering alternatives to improve the accounting system, including the acquisition of new accounting software, and therefore, hope to solve the accounting system condition in a near future.

Implementation Date: April, 2009

Responsible Person: Glenda L. Caraballo Flores
Finance Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

Section II - Financial Statements Findings

Finding Reference	08-02
Requirement	Payroll and Related Liabilities - Payroll Preparation and Timekeeping
Statement of Condition	<p>We performed a payroll test and examined a sample of twenty (20) personnel files, and the related payroll documents of these employees.</p> <p>The following will summarize the exceptions found:</p> <ul style="list-style-type: none">a. In one (1) case the employee's file did not include the form W-4.b. In five (5) cases the employee's payroll did not agree with the employee's change report included on the files. The Department did not update the files.c. In one (1) case the employee's time assistance cards did not agree with the compensated absences cards.d. In three (3) regular vacation days the compensated absence card did not agree with the license records prepared by the client.
Criteria	<p>The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico, Chapter IV, Section 18 (1) establish that the Municipality will prepare the payroll based on the employee's files.</p>
Cause of Condition	<p>The Municipality's internal control procedures failed to assure the proper payment and preparation of payroll, and the accuracy of compensated absences balance ledger.</p>
Effect of Condition	<p>The Municipality is not in compliance with Chapter (IV), Section 18 (1) of Revised Regulations on Basic Standards for the Municipalities of Puerto Rico.</p>
Recommendation	<p>We recommend the Municipality to improve its internal control procedures to assure that documents contained in the employee's file and other related documents support the payroll payments.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

Section II – Financial Statements Findings

Finding Reference **08-02 (Continued)**

Questioned Costs None

Management Response

and Corrective Action Actually, the Municipality is using a hand-image timekeeping system to trace payroll reports. This source of information is the primary input to update the compensated absences cards and the license records reports. As part of our corrective action plan, we'll review the employee's files to assure that the information is in accordance to employee's changes reports and instruct the Human Resources Department Personnel to assure that the information in the compensated absences cards and license records is in accordance with payroll reports. We are going to enforce our efforts to evaluate internal control procedures to assure the proper payment and preparation of payroll including the accuracy of compensated absences balance ledger.

Implementation Date: April, 2009

Responsible Person: Ilia M. Soto Vega
Human Resources Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	08-03
Program	Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development
Requirement	Davis-Bacon Act
Statement of Condition	<p>During our Davis-Bacon Act test, we verified three (3) construction projects; we found the following exceptions:</p> <ul style="list-style-type: none">a) In two (2) cases the contractor was not informed in the procurement process of the requirements for Davis Bacon Act.b) In three (3) construction projects, monitoring procedures were not done promptly to verify compliance with prevailing wage rates.c) In one (1) construction project, the contractor did not submit, timely, all the required weekly payrolls.
Criteria	Davis-Bacon Act, as amended DOL (40 USC 276 a to 276 a-7)
Cause of Condition	The Municipality's controls and procedures failed to apply all monitoring system procedures developed to test applicable contractors with respect to payment of prevailing wages.
Effect of Condition	The Municipality is not in compliance with Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7).
Recommendation	<p>We recommend Management to follow monitoring system procedures developed, including the following;</p> <ul style="list-style-type: none">a) Informing contractors in the procurement process and prior to contractual agreement signature about the applicability to submit all the required weekly payrolls.b) Obtaining contractor's and subcontractor's weekly payrolls to be reviewed on a weekly basis to establish the degree of compliance and the nature and extend of violations, if any, and then, communicate contractors promptly about any failure in the payroll process.
Questioned Costs	None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **08-03 (Continued)**

**Management Response
and Corrective Action**

The Municipal Secretary has adopted a new checklist to review each contract in order to be sure that the clauses required by the Federal statutes and regulations, like the Davis Bacon Act, are included in federal funds contracts. Nevertheless this action is already implemented; we are going to establish communication with the program staff in order to strengthen its monitoring system procedures related to compliance with Davis-Bacon Act. Also, we are going to give instructions to the “Ordenamiento” Territorial Office, its engineers, and all the contractors to assure that the submittal of weekly payrolls are done on a timely basis.

Implementation Date: April, 2009

Responsible Person: José R. Ortiz Alejandro
Federal Program Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	08-04
Program	Community Development Block Grant/Entitlement Grants (CFDA 14.218); U.S. Department of Housing and Urban Development
Requirement	Reporting – Performance Reporting
Statement of Condition	HUD-60002, Section 3 Summary Report, Economic Opportunities for Low and Very Low-Income Persons, (OMB No. 2529-0043) was not submitted for the fiscal year ended June 30, 2008.
Criteria	24 CFR sections 135.3 (a), 135.90, and 570.607. Section 135.3 (a) states that Section 3 applies to training, employment, contracting and other economic opportunities arising in connection with the expenditure of housing assistance and community development assistance that is used for the following projects: Housing rehabilitation, housing construction, and other public construction. Section 135.90, states that each recipient which receives directly from HUD financial assistance that is subject to the requirements of this part shall submit an annual report for the purpose of determining the effectiveness of Section 3. Where the program providing the Section 3 assistance requires submission of an annual performance report, the Section 3 report will be submitted with the annual performance report. If the program does not require an annual performance report the report shall be submitted by January 10 of each year or within 10 days of project completion, whichever is earlier. Section 570.607 state regulations for employment and contracting opportunities for low and very low income persons.
Cause of Condition	The Municipality did not comply with the established regulation as prescribed by HUD.
Effect of Condition	The Municipality may risk future federal programs funds if it does not come in compliance with HUD requirements stated in 24 CFR 135.3 (a), 135.90, and 570.607.
Recommendation	Procedures should be implemented to ascertain that the Municipality complies with the established Federal Regulation, as prescribed by HUD.
Questioned Costs	None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **08-04 (Continued)**

**Management Response
and Corrective Action**

The Municipality will take procedures to comply with the preparation of the Form HUD-60002, Section 3 Summary Report, Economic Opportunities for Low and Very Low-Income Persons. The Municipality will submit a corrective action plan outlining this finding to be corrected in a detail manner no later than April, 2009.

Implementation Date: April, 2009

Responsible Person: José R. Ortiz Alejandro
Federal Program Department Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 08-05

Program **Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families (ACUDEN)**

Requirement **Cash Management**

Statement of Condition We performed cash management test and examined three (3) cash advances received by the Municipality during the fiscal year ended on June 30, 2008. Also, we verified the bank statements and cash reconciliation for that period. The following summarizes the situations found:

- a. The request of funds system maintained by the Municipality and pass through agency did not provide the Program to disburse these cash advances received, on reasonable lapse of time;
- b. A monthly average cash balance of \$445,310 approximately was maintained during the fiscal year ended June 30, 2008. Otherwise, the following table illustrates the monthly cash balance for Bank Statements and Municipality Bank Conciliation with bank overdraft.

Bank Account: 078-309840		
Months	Adjusted Bank Cash Balance per Conciliation	Cash Balance per Bank Statement
Jul-07	\$ 732,080.86	\$ 848,838.84
Aug-07	192,007.85	451,142.79
Sep-07	450,251.24	576,874.10
Oct-07	274,213.47	836,001.51
Nov-07	551,562.06	1,331,976.03
Dec-07	(228,001.64)	143,845.32
Jan-08	470,755.62	612,848.65
Feb-08	536,846.76	691,029.10
Mar-08	2,953.04	99,612.70
Apr-08	(73,315.85)	27,678.20
May-08	1,100,601.43	1,364,406.24
Jun-08	496,553.60	702,566.83

Criteria OMB Common Rules, Subpart C, Section .20 (b) (7), requires a cash management system in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by the grantee.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	08-05 (Continued)
Cause of Condition	The procedures established by ACUDEN in the agreement of delegation of funds do not provide a clause to comply with this requirement.
Effect of Condition	The Municipality is not in compliance with OMB Common Rules, Subpart C, Section 20 (b) (7).
Recommendation	We recommend management to require ACUDEN alternate methods to request cash in order to comply with this requirement.
Questioned Costs	None
Management Response And Corrective Action	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of the corrective action plan development and implementation. Implementation Date: April, 2009 Responsible Person: Mrs. María de los Ángeles Torres Head Start Program Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	08-06
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families (ACUDEN)
Requirement	Matching, Level of Effort, Earmarking-Matching
Statement of Condition	The Municipality does not maintain proper documentation to ensure the Municipality's compliance with the Head Start Program Requirements.
Criteria	<p>Code of Federal Regulations 45, Subpart C, Section 13.01.20 states that the Municipality is required to contribute at least twenty percent (20%) of cost of the program through cash or in kind contribution. The grant agreement provisions has established that any deficiency in matching share contribution at the end of the program year will be remitted in cash to the grantee in the next ninety (90) days after year-end closeout.</p> <p>Also, OMB Common Rules, Subpart C 45 CFR 92.20 (b)(1), requires that accurate, current, and complete disclosure of financial results of financially assisted activities must be made in accordance with the financial reporting requirement of the grant or sub-grant.</p>
Cause of Condition	The Municipality did not maintain proper documentation to verify compliance with matching share contribution requirement.
Effect of Condition	The Municipality might not comply with the matching share requirement imposed through grant agreement and program regulations.
Recommendation	We recommend to the Municipality's management to monitor continuously the level of matching share contribution in order to take appropriate actions, if an anticipated unfavorable outcome will be expected. We also recommend the Program to adopt the necessary measures to ascertain proper documentation to ensure the Municipality's compliance with the matching requirements.
Questioned Costs	None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 08-06 (Continued)

Management Response

and Corrective Action To reduce the probability that a similar situation occurs in the future, management is going to instruct the program accountant to keep all supporting documents and the information gathered from municipal dependencies to maintain them in a monthly basis schedules. Also, the following procedures will be implemented:

- a. In order to report the actual rent in-kind contribution, a professional consultant will be contracted by the Municipality to appraise the donated buildings.
- b. Monthly certifications of salaries and marginal benefits will be obtained from the Payroll Department for the Municipal Employees who provide in-kind contributions services to Head Start facilities.
- c. A program office clerk will record, receive and verify the voluntary work's schedules per center on a monthly basis.
- d. The program will monitor and record monthly entries of the actual local in-kind contributions.
- e. Quarterly reports send it to the Grantee (ACUDEN) will include a complete and validated in-kind contribution certifications report that has previously been verified by an assigned personnel.

Implementation Date: April, 2009

Responsible Person: Mrs. María de los Ángeles Torres
Head Start Program Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	08-07
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families (ACUDEN)
Requirement	Matching, Level of Effort, Earmarking – Administrative Cost Limits
Statement of Condition	The accounting system maintained by Head Start Program did not provide for the classification of financial transactions between administrative and programmatic costs. Alternate procedures were used by the Program staff to compute compliance with the fifteen percent (15%) administrative costs limit.
Criteria	Code of Federal Regulations 45, Subpart C, Section 92.20 (a) (2) states that the sub grantees must maintain fiscal controls and accounting procedures sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restriction and prohibitions of applicable statutes.
Cause of Condition	The program accounting records did not provide a chart of accounts to individually account, programmatic and administrative expenditures.
Effect of Condition	Such condition may cause program's non-compliance with certain compliance requirements like: allowable costs, activities allowed and unhallowed; and earmarking.
Recommendation	We recommend management to modify the accounting system chart of accounts to create separate account for administrative and programmatic expenditures. Also, cost with dual benefits (administrative and programmatic) should be identified and allocated appropriately using a cost-benefit proportion.
Questioned Costs	None
Management Response and Corrective Action	As part of the corrective action plan, management will modify the accounting system chart of accounts to create separate accounts for administrative and programmatic expenditures. The Grantee (ACUDEN) has established a new electronic accounting system and its implementation will be mandatory to all the delegated agencies. The

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 08-07 (Continued)

new system provides for the segregation of both programmatic and administrative expenditures accounts. We have to implement the use of this system including hands-on seminars and training to prepare the accounting staff personnel in the recording of accounting transactions to assure that cost with dual benefits (administrative and programmatic) should be identified and allocated appropriately using a cost-benefit proportion.

Implementation Date: April, 2009

Responsible Person: Mrs. María de los Ángeles Torres
Head Start Program Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	08-08
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families (ACUDEN)
Requirement	Reporting - Financial Administration
Statement of Condition	<p>During our audit, we noted that the Municipality did not maintain an adequate set of accounting records for Head Start Program that present the financial position of the program and results of its operations.</p> <p>In our Reporting Test, we found differences between the amounts reported as federal expenditures in the monthly financial reports submitted to the pass-through agency and the amounts detailed in the trial balance and the general ledger. As result, the financial reports do not agree with the program accounting records.</p>
Criteria	<p>The grant agreement between the Administration for Children and Families states that final year reports should be submitted within the first twenty days after the ending of the program year. In addition, OMB Common Rules, Subpart C, Section .20 (b) (1), states that the grantee must maintain internal control procedures that permits proper tracing of funds to the accounting records. Also, it requires accurate, current and complete disclosure of financial results.</p>
Cause of Condition	<p>No adequate internal controls exist to assure the timely submission of closing reports to agencies as required by grant agreements. Also, the Municipality has not established adequate internal control procedures to assure the correctness of the reports.</p>
Effect of Condition	<p>The program did not comply with the grant agreement which require the timely submission of reports to the Administration for Children and Families. Also, the Municipality did not comply with 24 CFR Section .20 (b) (1).</p>
Recommendation	<p>We recommend that the required reports be prepared including all the required information and submitted in a timely manner. If the deadline is not achievable, a request for an extension should be obtained from the federal agency. Also, we recommend that the Municipality establish monitoring procedures to assure the accuracy of accounting</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference

08-08 (continued)

records and a correct completion of the closing reports. The program accountant must establish adequate communication channels with the Finance Department in order to obtain documental evidence related to cash receipt and disbursements in a daily manner, in order to be posted in the cash register maintained by the Program. The Program accountant assures that accounting records are updated at the end of each month in order to prepare accurate monthly reports to the pass-through agency. In addition, the accountant must assure that the cash register and the general ledger are duly reconciled and journal entries posted in the general ledger are duly documented and explained. We consider that the Program Director must evaluate the implementation of a computer accounting software to maintain the program books. Due to the large volume of transactions manual books are considered inefficient.

Questioned Costs

None

**Management Response
and Corrective Action**

The full development and implementation of the new electronic system accounting established by the Grantee (ACUDEN) assures the issuance of the reports at the required dates, avoiding mistakes and differences. As part of our corrective action plan, we will establish communication with Municipality's Finance Department to verify tracing of funds to the accounting records to strengthen and assure the accurate, current, and complete disclosure of financial results according to the reports issued to the Grantee (ACUDEN).

Implementation Date: April, 2009

Responsible Person: Mrs. María de los Ángeles Torres
Head Start Program Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2008

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
07-04	14.218	<p><u>During our cash management test, we noted that the program's book cash account maintained a monthly average cash balance of \$25,216.</u></p> <p>Full corrective action has been taken.</p>
07-05	14.218	<p><u>During our Davis-Bacon Act test, we verified three construction projects; we found the following exceptions: (a) In one (1) construction projects, the contractor did not submit, timely, all the required weekly payrolls. (b) In three (3) construction project, monitoring procedures were not done promptly to verify its compliance with prevailing wage rates.</u></p> <p>No corrective action has been taken. The auditors reissued the finding in the current year. See Finding Reference 08-03.</p>
07-06	93.600	<p><u>We realized cash management test and examined three (3) cash advances received by the Municipality during the fiscal year 2006-2007. Also, we verified the bank statements and cash reconciliation for that period. The following summarizes the situations found: (a) The Municipality requested funds that were not disbursed on a reasonable lapse of time; (b)The Municipality maintains an average cash balance of \$462,370.96 during the fiscal year 2006-2007.</u></p> <p>No corrective action has been taken. The auditors reissued the finding in the current year. See Finding Reference 08-05.</p>
07-07	93.600	<p><u>The Municipality does not maintain proper documentation to ensure the Municipality's compliance with the Head Start Program.</u></p> <p>No corrective action has been taken. The auditors reissued the finding in the current year. See Finding Reference 08-06.</p>
07-08	93.600	<p><u>The accounting system maintained by Head Start Program did not provide for the classification of financial transactions between administrative and programmatic costs. Alternate procedures were used by the Program staff to compute compliance with the fifteen percent (15%) administrative costs limit.</u></p> <p>No corrective action has been taken. The auditors reissued the finding in the current year. See Finding Reference 08-07.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2008

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)																
07-09	93.600	<p><u>During our Reporting Test, we found differences between the amounts reported as federal expenditures in the monthly financial reports submitted to the pass-through agency and the amounts detailed in the trial balance and the general ledger. In our sample test of three (3) months, we identified the following exceptions:</u></p> <table border="1" style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Months</th> <th style="text-align: center;">Accumulated Expenditures per Accounting Records</th> <th style="text-align: center;">Accumulated Expenditures per Financial Report</th> <th style="text-align: center;">Differences</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">August-2006</td> <td style="text-align: right;">\$5,953,947.15</td> <td style="text-align: right;">\$6,039,961.00</td> <td style="text-align: right;">\$86,013.85</td> </tr> <tr> <td style="text-align: center;">September-2006</td> <td style="text-align: right;">6,885,143.65</td> <td style="text-align: right;">7,041,247.00</td> <td style="text-align: right;">156,103.35</td> </tr> <tr> <td style="text-align: center;">November-2006</td> <td style="text-align: right;">9,275,565.81</td> <td style="text-align: right;">9,485,598.00</td> <td style="text-align: right;">210,032.19</td> </tr> </tbody> </table> <p><u>As result, the financial reports do not agree with the program accounting records.</u></p> <p>No corrective action has been taken. The auditors reissued the finding in the current year. See Finding Reference 08-08.</p>	Months	Accumulated Expenditures per Accounting Records	Accumulated Expenditures per Financial Report	Differences	August-2006	\$5,953,947.15	\$6,039,961.00	\$86,013.85	September-2006	6,885,143.65	7,041,247.00	156,103.35	November-2006	9,275,565.81	9,485,598.00	210,032.19
Months	Accumulated Expenditures per Accounting Records	Accumulated Expenditures per Financial Report	Differences															
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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2008

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)																								
06-02	14.218	<p><u>We performed a housing rehabilitation activities test of fifteen (15) participant's files and found the following exceptions:</u></p> <p>(a) <u>In seven (7) participant's files, we noted that the program did not establish adequate internal control procedures to assure that the work was properly completed on time. At the time of our examination, a period from four (4) to sixteen (16) months has elapsed from purchase order date.</u></p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">Purchase Order Date</th> <th style="text-align: center;">Case Number</th> <th style="text-align: center;">Time Elapsed (In Month)</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">24-Mar-06</td> <td style="text-align: center;">2003-0442</td> <td style="text-align: center;">12</td> </tr> <tr> <td style="text-align: center;">26-May-06</td> <td style="text-align: center;">2004-0149</td> <td style="text-align: center;">10</td> </tr> <tr> <td style="text-align: center;">8-Jun-06</td> <td style="text-align: center;">2004-0150</td> <td style="text-align: center;">9</td> </tr> <tr> <td style="text-align: center;">16-Oct-06</td> <td style="text-align: center;">2004-0144</td> <td style="text-align: center;">5</td> </tr> <tr> <td style="text-align: center;">16-Nov-06</td> <td style="text-align: center;">2004-0133</td> <td style="text-align: center;">4</td> </tr> <tr> <td style="text-align: center;">15-Nov-05</td> <td style="text-align: center;">2004-0161</td> <td style="text-align: center;">16</td> </tr> <tr> <td style="text-align: center;">25-Jan-06</td> <td style="text-align: center;">2004-0434</td> <td style="text-align: center;">14</td> </tr> </tbody> </table> <p>(b) <u>In fifteen (15) participant's files, we noted that the eligibility applications were not properly completed. The files did not include a form where staff program can calculate the eligibility using the Poverty Guideline;</u></p> <p>(c) <u>In nine (9) participant's file, the eligibility determination was not properly documented. The rehabilitation contracts were not signed by mayor or representation person.</u></p> <p>Full corrective action has been taken.</p>	Purchase Order Date	Case Number	Time Elapsed (In Month)	24-Mar-06	2003-0442	12	26-May-06	2004-0149	10	8-Jun-06	2004-0150	9	16-Oct-06	2004-0144	5	16-Nov-06	2004-0133	4	15-Nov-05	2004-0161	16	25-Jan-06	2004-0434	14
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25-Jan-06	2004-0434	14																								
06-03	14.228	<p><u>During our cash management test, we noted that the program's Bank cash account maintained a monthly average cash balance of \$37,222.04 in books.</u></p> <p>Full corrective action has been taken.</p>																								

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2008

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
06-04	14.228	<p><u>During our contract provision test, we noted the following situations:</u></p> <ul style="list-style-type: none"> (a) <u>Four (4) contracts did not include a provision for retention of all required records for three (3) years;</u> (b) <u>Four (4) contracts did not include a provision for compliance with Energy Policy and Conservation Act;</u> (c) <u>Four (4) contracts did not include a provision for compliance with the Copeland "Anti-Kickback Act";</u> (d) <u>Four (4) contracts did not include provision for compliance with sections 103 and 107 of the Contract Work Hours & Safety Standards Act.</u> (e) <u>One (1) contract did not include provision for compliance with Davis Bacon Act.</u> (f) <u>One (1) contract did not include provision for granting access to GAO or other Federally Agency, to books, documents, etc.</u> <p>Full corrective action has been taken.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2008

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)																																										
06-05	93.600	<p><u>During our Cash Management test, we noted that the Program requested funds that were not disbursed on a reasonable lapse of time. Also, a monthly average cash balance of \$506,526.92 was maintained during the fiscal year ended June 30, 2006. The following table illustrates the monthly cash balance for Bank Statements and Municipality Bank Conciliation.</u></p> <table border="1" style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th colspan="3" style="text-align: left; padding: 2px;">Bank Account: 078-831008</th> </tr> <tr> <th style="width: 20%; padding: 2px;">Months</th> <th style="width: 40%; padding: 2px;">Adjusted Bank Cash Balance per Conciliation</th> <th style="width: 40%; padding: 2px;">Cash Balance per Bank Statement</th> </tr> </thead> <tbody> <tr><td style="padding: 2px;">Jul-05</td><td style="padding: 2px;">\$ 245,860.79</td><td style="padding: 2px;">\$ 581,578.66</td></tr> <tr><td style="padding: 2px;">Aug-05</td><td style="padding: 2px;">656,690.29</td><td style="padding: 2px;">810,391.24</td></tr> <tr><td style="padding: 2px;">Sep-05</td><td style="padding: 2px;">108,769.27</td><td style="padding: 2px;">273,270.01</td></tr> <tr><td style="padding: 2px;">Oct-05</td><td style="padding: 2px;">1,012,752.33</td><td style="padding: 2px;">1,207,317.81</td></tr> <tr><td style="padding: 2px;">Nov-05</td><td style="padding: 2px;">(87,854.61)</td><td style="padding: 2px;">830,171.52</td></tr> <tr><td style="padding: 2px;">Dec-05</td><td style="padding: 2px;">428,879.79</td><td style="padding: 2px;">799,255.14</td></tr> <tr><td style="padding: 2px;">Jan-06</td><td style="padding: 2px;">450,907.76</td><td style="padding: 2px;">600,348.00</td></tr> <tr><td style="padding: 2px;">Feb-06</td><td style="padding: 2px;">1,217,313.13</td><td style="padding: 2px;">1,362,063.64</td></tr> <tr><td style="padding: 2px;">Mar-06</td><td style="padding: 2px;">749,306.22</td><td style="padding: 2px;">825,530.74</td></tr> <tr><td style="padding: 2px;">Apr-06</td><td style="padding: 2px;">960,531.75</td><td style="padding: 2px;">1,068,881.45</td></tr> <tr><td style="padding: 2px;">May-06</td><td style="padding: 2px;">404,589.65</td><td style="padding: 2px;">867,165.27</td></tr> <tr><td style="padding: 2px;">Jun-06</td><td style="padding: 2px;">(69,423.30)</td><td style="padding: 2px;">719,567.45</td></tr> </tbody> </table> <p>No corrective action has been taken. The auditors reissued the finding in the current year. See Finding Reference 08-05.</p>	Bank Account: 078-831008			Months	Adjusted Bank Cash Balance per Conciliation	Cash Balance per Bank Statement	Jul-05	\$ 245,860.79	\$ 581,578.66	Aug-05	656,690.29	810,391.24	Sep-05	108,769.27	273,270.01	Oct-05	1,012,752.33	1,207,317.81	Nov-05	(87,854.61)	830,171.52	Dec-05	428,879.79	799,255.14	Jan-06	450,907.76	600,348.00	Feb-06	1,217,313.13	1,362,063.64	Mar-06	749,306.22	825,530.74	Apr-06	960,531.75	1,068,881.45	May-06	404,589.65	867,165.27	Jun-06	(69,423.30)	719,567.45
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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2008

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
06-06	93.600	<p><u>During our matching requirement test, we noted the followings exceptions:</u></p> <p>(a) <u>The "Rent" in Local In-Kind contribution for fiscal year 2005-2006, we noted that the Program did not include sufficient evidential matter to support the like in-kind rent contribution. Also, these rent contributions did not agree with the amounts recorded in the general ledger. In accordance with the supporting documents the In-kind rent contributions were \$698,112.00. However, the amounts recorded in the general ledger were \$924,554.00; a difference of (\$226,442).</u></p> <p>(b) <u>For the "Municipal employees" in local in-kind contribution for fiscal year 2005-2006, we noted that the supporting documents did not agree with the amounts recorded in the general ledger. In accordance with the supporting documents the in-kind contributions for "Municipal employees" were \$388,516.72. However, the amounts recorded in the general ledger were \$295,611.00; a difference of \$92,905.72.</u></p> <p>(c) <u>For the "Volunteers" local in-kind contribution for fiscal year 2005-2006, we noted that the Program did not include sufficient evidential matter to support the \$57,458.70 to "Volunteers Labor" in-kind contribution. In accordance with the supporting documents the in-kind contributions for "Volunteers" were \$1,308,001.30. However, the amounts recorded in the general ledger were \$1,365,460.00; a difference of (\$57,458.70).</u></p> <p>(d) <u>We noted that the Program did not include \$259,477.48 of local in-kind contribution for fiscal year 2005-2006 in the "Others" account.</u></p> <p>No corrective action has been taken. The auditors reissued the finding in the current year. See Finding Reference 08-06.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYAMA

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2008

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)																
06-07	93.600	<p><u>The Accounting System maintained by Head Start Program financial activities did not provide for the classification of financial transactions between administrative and programmatic costs. Alternate procedures were used by the Program staff to compute compliance with the fifteen percent (15%) administrative costs limit.</u></p> <p>No corrective action has been taken. The auditors reissued the finding in the current year. See Finding Reference 08-07.</p>																
		<p><u>During our Reporting Test, we found differences between the amounts reported as federal expenditures in the monthly financial reports submitted to the pass-through agency and the amounts detailed in the trial balance and the general ledger. In our sample test of three (3) months, we identified the following exceptions:</u></p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">Months</th> <th style="text-align: center;">Accumulated Expenditures per Accounting Records</th> <th style="text-align: center;">Accumulated Expenditures per Financial Report</th> <th style="text-align: center;">Differences</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">May-05</td> <td style="text-align: right;">\$2,157,397.34</td> <td style="text-align: right;">\$2,321,045.00</td> <td style="text-align: right;">(\$163,647.66)</td> </tr> <tr> <td style="text-align: center;">Aug-05</td> <td style="text-align: right;">4,658,201.00</td> <td style="text-align: right;">4,948,766.00</td> <td style="text-align: right;">(290,565.00)</td> </tr> <tr> <td style="text-align: center;">Jan-06</td> <td style="text-align: right;">9,256,961.00</td> <td style="text-align: right;">9,482,832.00</td> <td style="text-align: right;">(225,871.00)</td> </tr> </tbody> </table> <p><u>As result, the financial reports do not agree with the program accounting records. In addition, we noted that the program staff did not have adequate accounting records, and sufficient evidential matter to support their accounting records.</u></p> <p>No corrective action has been taken. The auditors reissued the finding in the current year. See Finding Reference 08-08.</p>	Months	Accumulated Expenditures per Accounting Records	Accumulated Expenditures per Financial Report	Differences	May-05	\$2,157,397.34	\$2,321,045.00	(\$163,647.66)	Aug-05	4,658,201.00	4,948,766.00	(290,565.00)	Jan-06	9,256,961.00	9,482,832.00	(225,871.00)
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05-03 through 05-11	14.228 93.600	<p>Audit finding is no longer valid since has passed more than two (2) years since the reports were submitted to Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow-up to the finding and has not issued a final decision respect to the finding.</p>																